

City of Detroit


CITY COUNCIL

IRVIN CORLEY, JR.
FISCAL ANALYST
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: cc-fiscal@ci.detroit.mi.us

ANNE MARIE LANGAN
ASSISTANT FISCAL ANALYST
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: October 8, 2007

RE: Audit of Fire Department – March 2007
Contract 2551746 Amendment with Accumed Billing, Inc.-
**For the 1:15 P.M. Discussion on the Audit of the Fire
Department on Monday, October 8, 2007 in the Budget,
Finance and Audit Committee Meeting**

Accumed Contract No. 2551746

The Accumed Billing, Inc. contract amendment (first attachment) is for the billing and collection of medical billing for Emergency Medical Services performed by the Fire Department. This contract amendment has been held, in part, awaiting the discussion on the Fire Department audit.

It is my understanding that while the audit report identifies EMS billings and collection as an area of concern the issue is not with the services of the contractor, but rather the lack of a collection effort after the contractor has performed their services. I believe the contractor has in the past and is willing to provide all necessary information and reporting the City may require. At this time, unless there are other concerns I am not aware of the contract amendment with Accumed Billing, Inc. can be released as continuation of the billing and services are necessary for the Fire Department.

Fire Audit of March 2007-Fiscal's General Observation

In July, I provided a preliminary response to Council Member Watson's request (second attachment) that the Fiscal Analysis Division comment on the recently completed audit of the Fire Department for the period of July 1, 2004 through June 30, 2006, as it reports on 35% collection of revenues.

Two key issues stand out from the Auditor General's Fire Audit:

1. For EMS revenues, over the audit period of July 1, 2004 through June 30, 2006, EMS billings totaled \$75.2 million while only \$26.5 million, or 35.2% of the billings, were collected.
2. For Fire Marshal Division revenues over the same audit period, billings totaled \$1.5 million per year, while only about one third, or \$500,000 was collected.

The primary problem with EMS billings is that it appears the Fire Department is not properly recording and following up on data produced by the EMS billings contractor, Accumed. Total billings, allowances for bad debts and net receivables should be reflected in the City's financial reporting system. In addition, Accumed also issues three follow up notices 30, 60 and 90 days after the original bill. This information should be used to produce aging accounts receivable reports and to help maximize collection efforts.

Council should request a follow up audit a year from now to ensure the Fire Department has worked with the Finance Department using data from Accumed to set up proper accounting procedures to record all EMS activity and improve collection efforts.

Similarly, in-house procedures in the Fire Marshal Division of the Fire Department are inadequate in that total billings are not being recorded in the financial reporting system, and the division's License and Permits Billing System is not producing late notices.

Again, it is essential that property accounting procedures and collection efforts are established between the Fire and Finance Departments address these issues.

EMS and Fire Marshal Division Budgetary Information

While we concur with the Auditor General's recommendations regarding EMS and Fire Marshal Division revenues, we want to point out that it appears the Budget Department has properly budgeted for these revenues since the budgets were based on past collections. The information below illustrates this point.

	<u>Fiscal 2003-04</u>	<u>Fiscal 2004-05</u>	<u>Fiscal 2005-06</u>	<u>Fiscal 2006-07</u>
<i>EMS Revenues:</i>				
Budget	8,209,000.00	11,716,497.00	12,070,861.00	14,332,543.00
Actual	<u>11,430,687.00</u>	<u>10,926,654.00</u>	<u>15,654,393.24</u>	<u>14,070,563.48</u>
Surplus/Deficit	3,221,687.00	(789,843.00)	3,583,532.24	(261,979.52)
<i>Fire Marshal Div. Revenues</i>				
Budget	1,289,000.00	1,290,000.00	4,343,255.00	1,615,000.00
Actual	<u>978,032.25</u>	<u>2,374,484.03</u>	<u>(353,498.83)</u>	<u>1,070,485.87</u>
Surplus/Deficit	(310,967.75)	1,084,484.03	(4,696,753.83)	(544,514.13)

As can be seen, with the one exception of Fire Marshal Division revenues in fiscal year 2005-06, which ended up with a sizable deficit, perhaps due to an accounting error, the Budget Department has been primarily pretty close or conservative in budgeting for EMS and Fire Marshal revenues, as the budgets have been based on past collections.

But the point the Auditor General is making is still very important. If total billings were properly recorded, and collection efforts were enhanced, it is quite possible more EMS and Fire Marshal revenue could be reflected not only in the accounting statements, but in the budgets as well.

So, although it appears no one is purposely hiding EMS and Fire Marshal revenue, the Fire Department, along with Finance, must do a better job ensuring that these revenues are properly captured and collected, which could improve budget outcomes.

Council should note that we have expanded on our initial comments made in July to respond to Councilwoman Watson's request. These comments are included in Appendix A for your edification. We respectfully request that the Fire and Finance Department's give serious consideration to our observations, much which coincides with the Auditor General's concerns raised in the audit.

Attachments

cc: Council Divisions
Auditor General's Office
Tyrone C. Scott, Fire Commissioner
Charlene Graham, Fire's Research & Development Coordinator
Roger Short, Chief Financial Officer
Pamela Scales, Budget Director
Charleta McInnis, Budget Team Leader
Kandia Milton, Mayor's Office

Appendix A

With additional time to review the audit the following comments are offered in an expanded response to the Council Member Watson's request.

Before making comments on the multiple recommendations contained in the audit some observations on the importance of regular audits and the need for the city to allocate their limited resources to core services including support functions are in order.

While the core function of the Fire Department is to address the safety of the citizens by preventing and fighting fires, the administration of the department must also provide for and conduct the support functions necessary to carry out the core services, such as accounting, payroll, and protection of city assets.

Many times audits and audit findings are viewed negatively, but in reality they represent an independent impartial review of financial activity that can identify weaknesses in current operations. The audit results present an opportunity to correct these weaknesses before a loss to the city takes place. From this perspective the audit findings should be welcomed as they present an opportunity to improve operations.

It bears noting that the last audit of the Fire Department covered the period ending June 30, 1995, so the department has not been audited in 11 years. It would logically be expected that major findings requiring attention would be identified because of the absence of regular audits. The down side is that a number of items, identified in the 1998 audit and even audits prior to 1995, may not have been addressed and still require correction. This indicates to me that resources have not been allocated properly to address these issues.

For Council's reference, without re-presenting the complete findings of the current audit the following table summarizes the findings in the current audit, when the finding was originally identified in an audit, and the status of findings from previous audits.

Audit Report Finding No.	Current Audit Findings	Previously Reported
1.	EMS Division Fails to Adequately Manage Revenues and Accounts Receivables	1993
2.	Fire Marshal Division Fails to Adequately Manage Revenues and Accounts Receivables	1981
3.	Controls Over Cash are Inadequate	1989
4.	License Permits Billing System of the Fire Marshal Division is inadequate	1993
5.	Inventory System of the Fire Department is Inadequate	1991
6.	Fire Department Did Not Comply with Year-end Closing Procedures for Fiscal Year 2004-05 and 2005-06	
7.	Mileage Reimbursement Payments are Not Always	

	Made in Compliance with Union Contracts	
8.	Daily Time Records are Not Maintained for the Fire Commissioner and the Deputy Fire Commissioner	1993
9.	Fire Marshal Division Does Not Have an Adequate Special Billing Process	1989
10.	Record Keeping for Fixed Assets is Inadequate and Does Not Conform to the Capital Asset Policy	
11.	The Apparatus Division Does Not Effectively Manage the Sale of Scrap Vehicles, Metal and other Obsolete Inventory	
12.	Various Financial Functions of the Fire Department Are Not Centralized Resulting in Inefficient Operations and Lack of Uniformity	
Non-Compliance Issue	Non-compliance with City Council Resolution Authorizing the Community Bank Account	
Status of Previous Audit Findings		
1.	Billing for Damaged Fire Hydrants Not Being Done Timely	1987 – Responsibility transferred to DWSD
2.	The Permit and Inspection Billing System of the Fire Marshal Division Was Inadequate	1993 - See Audit Rpt. 4
3.	Significant Amount of the Permit Billings Were Delinquent	1981 – See Audit Rpt. 4
4.	Special Inspection Billings Were Not Adequately Documented	1989 - See Audit Rpt. 9
5.	Billing and Collection of Emergency Medical Services (EMS) Fees Were Inadequate	1993 – See Audit Rpt. 1
6.	Delinquent Fire, Fire Marshal, and EMS Accounts Were Not Referred to the Law Department	1989 – See Audit Rpt. 1 & 2
7.	Cash Receipts of the Fire Marshal Division Were Not Reconciled to Bank Deposits	1989 See Audit Rpt. 3
8.	Inventory System Not Adequate	1991 – See Audit Rpt. 5
9.	Physical Inventory Records Were Not Retained	1993 – See Audit Rpt. 5
10.	Daily Time Records Were Not Maintained for the Administrative Division	1993 – See Audit Rpt. 8
11.	Contracts With Medical Providers Were Lacking	1993 - Resolved

The current audit includes twelve findings, of which seven findings were identified in previous audits, but have not been resolved. Of eleven findings from the previous audit, nine have not been resolved. And transfer of the responsibility to another department resolved one of the two resolved findings. There is no indication that the other department has addressed the finding, billing for damaged fire hydrants in a timely fashion. Not a record for anyone to be proud of.

In some cases, previous audit findings involved the Financial Information Control System (FICS) but remain after the implementation of a new financial reporting system. This leads to the question are the issues related to system

shortcomings or are they more financial policy, procedures and reporting in nature. This findings of this and previous audits combined, seems to indicate it may not be a system problem or shortcoming, but rather a lack of policy and procedure problem, or non-compliance with existing policy and procedures. And if so, correction of the problems would be more appropriately addressed by the finance director.

An additional concern I have is that I believe some of the findings in the Fire Department audit, specifically, cash handling, billing, and collection of revenues, and inventory control are not unique to the Fire Department. These same issues exist in many other agencies, showing an overall organizational lack of policy, procedures and controls in these areas. Another reason to support the rational for inclusion of the Finance Department.

I think it should be noted that these same weaknesses existed in the previous financial reporting information system (FICS) as noted by the auditor and Fire Department responses.

While a lot of time and effort could be spent on finding out why improvements have not been made and who is responsible, unless this effort would remedy the situation, the effort would be wasted. My recommendation to Council is, review the audit findings and priorities them as to importance, work with the Fire Department representatives and Finance Director to develop a game plan to improve the operations, including identifying required resources (both employee and financial), establish implementation timetable, and monitor the progress of the implementation of the improvements.

I caution Council, not to buy into the pat answers that reassigning the responsibility to another agency, section or employee, will improve things. This amounts to rearranging the deck chairs on the Titanic. The audit has identified the weaknesses, development and implementation of an improvement program with identification of responsible employees, and the serious monitoring of the process to improve operations is the way to change things for the better in the future.

Council should be encouraged that the Auditor General has place a high priority on the completion of regular agency audits as stated in the charter to "Make audits of the financial transactions of all city agencies at least once every two (2) years or as otherwise directed by the city council." The regular audit of each agency provides at least two very critical purposes, one policing for compliance with policies and practices aids in uncovering potential problems. The audit reports include recommendations to correct or improve operations to minimize any potential loss to the city. Second when the audits are conducted regularly and timely as required by the charter the audits act as a deterrent to those individuals considering enriching themselves at the cost to the city, as there is a higher degree of certainty that discovery of the actions will be made.

In the case of the specific Fire Department Audit, an interesting accounting issue has been brought to light. That being, the proper recording of billed revenue, collections and write-off of uncollectible revenues, on the City books when an outside billing/collection contractor is used. I would recommend that Council request that the Finance Director consider issuing a directive that covers this situation, hopefully with the concurrence of KPMG, the current outside auditing firm being used by the City. Identification and resolution of this type of issue internally and the issuance of a finance directive clearly stating how the items should be reflected in the City's accounting records, has the potential to reduce the time necessary to complete the Comprehensive Annual Financial Report (CAFR).

In light of the duties of the finance director as stated in the charter, "The finance director shall also secure and maintain compliance with all laws pertaining to financial controls for the protection of public funds." I would suggest that Council have the finance director respond on what actions he has taken to address the findings in the Fire audit, as well as those identified in the cash management audit recently completed by the auditor general.

And while the main responsibility of the Fire Department is as stated in the report is to protect life and property from fire and to enforce all laws, ordinances and regulations relating to fire prevention and safety this does not relieve the department or any other department or agency of the city, of adequate attention to business activity. , either on their own or in conjunction with the finance department, of adequate attention to basic business responsibilities and reporting. Or of conducting operations in a business like fashion.

It is my recommendation that Council assist the Fire Department and where appropriate the Finance Department by requesting an action plan to address the shortcomings identified in the audit of the Fire Department. Including specific dates for completion of actions and regular status updated to Council on the progress of the action plan. should follow through on securing specific action plans including dates, by the department and finance department, as some findings may indicate across the organization issues rather than being limited to the Fire Department, to address the audit findings. Council should require regular update reports on the progress of the action plans, or the finding will remain unaddressed when the next audit, in two years, is completed.

Without the encouragement from Council, the Fire and Finance Department cannot be expected to make the necessary improvements.

Left on their own, the Fire and Finance Departments will likely fail to make progress on the identified weaknesses, just as the number of recurring items show the lack of progress from the last audit.

Council's interest and vigilance can provide the motivation to address the audit findings, improving the Fire Department and overall City financial activity.

The standing committee structure may provide an improved structure in which Council can monitor such action plans to correct the identified deficiencies.

Regular status reports on the progress on addressing the audit finds should encourage the departments to improve operations. The standing committee structure Council is adopting upon their return from recess, may provide a better structure to monitor such improvements.

In my opinion, requiring an action plan and the monitoring of the plan by Council's standing committees should not impinge on the separation of powers between the executive and legislative branches. But only address the legitimate concerns Council has in meeting its responsibility to oversee city operations.

An additional point, the EMS revenues fall into a group I identify as "All Other Revenues" in my surplus/deficit analysis and reporting to Council. This catch-all group of revenues excludes the major revenues such as Municipal Income Tax, Property Tax, State Revenue Sharing, Casino Gaming Fees, Solid Waste Fees, Utility Users Tax, and the Sale of Property which are analyzed individually based on their magnitude. Each individual revenue account included in the all other revenue group by itself generally represents less than 2% of the total revenue collections, and combine equals around 20 to 25 % of total revenues.

Council may recall that as a group the lack of collection of the estimated revenues included the all other revenue group has been a concern during budget development and contributes to deficits in operations of the city. This is another reason I would recommend that the Finance Department review the EMS revenue collection contract and associated financial reporting process and report back to Council that the current process complies with acceptable accounting practices and financial reporting, or issues a directive on how the process and reporting will be improved.

Irvin Corley - Accumed

From: David Teeter
To: Irvin Corley
Date: 10/4/2007 5:02 PM
Subject: Accumed

Following is the information on Accumed.

It was included in the list submitted for the Week of Aug. 6, 2007 and Held by Council Member Watson, It was referred to the PH & S Committee on 9-11.

2551746 (CHANGE ORDER NO. 06) 100% City Funding – To provide Professional Services to Medical billing for EMS Division – Accumed Billing, Inc., 19135 Allen Rd., Ste. 106, Trenton, MI 48183 – From July 8, 2007 through February 7, 2008 – Contract Increase: \$701,605.00 – Not to exceed: \$10,097,448.00 **FIRE**

Costs budgeted to General Fund, Acct. 1000-240320-000089-617900-00067-0-A1510, appropriation for Emergency Medical Services shows funding of \$25,726,176 as of Aug. 3, 2007.

This contract was initially approved July 25, 2001, for a term of 2 years and a cost of \$1,476,000 per year. The previous 5 changes have extended the term of the contract 4 additional years for additional costs of \$6,548,000. The most recent changes were: Change 4 submitted the Recess Week of Aug. 4, 2006 to extend from July 2006 through Feb. 7 2007 for an increase of \$904,167 to \$8,794,467; Change No. 4 approved May 23, 2007 for a 6 month term for \$705,533 to a total of \$9,500,000. This appears to have been an error, since the 6 months would have extended the contract from Feb. 7th through August 7.

This request is to extend the contract through Feb. 7, 2008, and increase the costs by \$701,605. The indicated total is not correct. The total approved in May 2007 was \$9,500,000, with this increase, that is a total of \$10,201,605.

The fees indicated to remain unchanged at \$10.33 per record or run. It has been indicated with each the previous 2 extensions that the extensions were pending the authorization of a new contract for this service. City Council may wish to inquire on the status of the new contract.

HRD: Good Through 12-4-07; TAXES: Good Through 1-31-08 and 12-31-07.

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2 Woodward Avenue, Suite 218
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E-Mail: cc-fiscal@ci.detroit.mi.us

ANNE MARIE LANGAN
ASSISTANT FISCAL ANALYST
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley Jr., Director *ICJ*

DATE: July 25, 2007

RE: Audit of the Fire Department – March 2007

2007 JUL 25 P 3:09

DETROIT
CITY CLERK

Council Member Watson asked that the Fiscal Analysis Division comment on the recently completed audit of the Fire Department for the period of July 1, 2004 through June 30, 2006, as it relates to a 35% collection rate of Emergency Medical Services (EMS) revenues. The following comments are offered in response to the Council Member Watson's request.

On page 6 of the Auditor General's report the following statement is made:

"During the two years of the audit period (July 1, 2004 to June 30, 2006), a total of \$75.2 million was billed for EMS services while only \$26.5 million or 35.2% of the billings were collected. After subtracting the contractually mandated allowances, the uncollected balance was \$25.2 million or 33.5% of the billings."

It is my understanding that this 33.5% - 35.2% collection rate results from the limited collection efforts made on EMS billings and the loss of revenue from third party reimbursement.

The current policy followed for collection of the EMS billings is for the contractor (AccuMed Billings) to issue the original bill for service, with three follow up notices at 30, 60, and 90 day periods. After the original billing and three follow up notices not additional efforts to collect are made.

Even with a more aggressive collection effort, 100% of the bills will not be collected. Medicare and Medicaid do not pay the full amount billed but rather have established rates for the service provided. Many third party payers do not pay the full amount either. So a portion of the billings not paid by Medicare Medicaid and third parties will be lost even with an improved collection effort. This loss could be in the area of 1/3 of the total billings or half of the uncollected amount. The Fire Department should be able to provide Council with the actual amount lost due to lower third party reimbursements.

Council should request that both the Fire Department and Finance Department recommend to Council improved collection efforts that would be both cost effective and sensitive to the ability to pay of those receiving EMS service.

cc: Council Divisions
Loren Monroe, Auditor General
Roger Short, Chief Finance Officer
Tyrone Scott, Fire Commissioner
Kandia Milton, Mayor's Office